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Regulating the post-independence textile trade: Anglo-Indian tariff negotiations from Independence to the Multi-Fibre Arrangement.

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Regulating the post-independence textile trade: Anglo-Indian tariff negotiations from Independence to the Multi-Fibre Arrangement.

Abstract

Based upon UK and Indian government archives the paper innovatively informs our understanding of business/state relationships in the areas of the regulation of post-colonial international trade. The abandonment of Imperial Preference for tariff protection in Britain proved problematic in the case of Indian textile industry whose entry into the British market, tariff free under Imperial Preference, was being replaced first by quota regulations and then by duties from the early 1970s. This paper examines the negotiations between British and Indian textile interests in the period before the Multi-Fibre Arrangement as an environment where conflicting interests were negotiated.

Trade

Textiles

India

Tariff

Multi Fibre Agreement

Government

Regulating the post-independence textile trade: Anglo-Indian tariff negotiations from Independence to the Multi-Fibre Arrangement.

Introduction

The introduction of Multi-Fibre Agreement (MFA) in 1974 was the culmination of international negotiations which sought to protect declining domestic industries of the advanced Western economies of Europe and North America from import competition from newly industrialising developing economies. Textiles as an example of an industry of the first industrial revolution that was particularly vulnerable to international competition from emergent economies acts as a key example of this process. The Anglo-Indian and the MFA provides a case study for our understanding of the relationship between governments' management of economic transitions within their own economies and their management of international trade between economies to response to their domestic concerns.

However, this case also suggests that the regulation of the textile trade between Britain and India, whilst an important example of this form of regulation, cannot be understood in the traditional simplistic contextualisation of competition between the developed and developing economies. Indian producers and the Indian state were not simply powerless recipients of decisions made by dominant western powers. Instead Indian producers rapidly moved into higher technology production and internationalised production of low cost textiles in order to circumvent barriers to trade imposed by MFA. At the same time the Indian state actively encouraged production into higher value, export orientated artificial fibres. In doing so the paper questions the entrepreneurial failure identified in the historiography of the Indian textile industry and the failure of the Indian state in developing strategies to maintain employment in the sector.

The growth of textile industries have historically been associated with the development of the first industrial revolution in modern economies (Goodman and Honeyman, 1988). Textiles not simply provided a means for industrial revolutions to develop internally within economies but also provided a mechanism for the growth of internationalisation of economies through the trade of raw materials, semi-finished products and finished consumer goods (Deane, 1979). Thus, the domestic development of indigenous textile industries and the subsequent domestic management of the transition from textiles into more complex manufacturing processes, combined with the management of the international textile trade, has consistently been the focus of government industrial and commercial policy in industrialising economies.

In the case of Britain and India the political context within which the management of these trade relationships occurred from the end of the Second World War to the introduction of the MFA in 1974 was one in which the end of the British Empire and Indian independence, in 1947, ensured that Indian economic interests could no longer be subordinated as easily to those of British industrial interests, as had been the case under Empire. As a result the attempts of the British government to dictate terms of trade to the Indian government by limiting imports of

low value goods were met with an the economic reality that saw Indian producers responding proactively by organising production into higher value adding sectors of the trade. In doing so the Indian producers were replicating changing patterns of production which British producers had followed in the decades earlier when the first international competition emerged from Indian textile producers.

The paper demonstrates that in both Britain and India government trade policies, aimed at protecting domestic employment while promoting industrialisation had very different impacts. While, both economies grappled with a similar problem; that of managing an economic transition from low value textile production into higher value internationally competitive textile production and simultaneously dealing with the emergence of competition from newer, lower cost centres of production. In this respect the question faced by the Indian government and the Indian textile industries were in many respects similar to that of the British industries.

The following sections of the paper show how India's industrialisation before independence came to be understood as highly racialized with the promotion of indigenous ownership becoming one of the key themes dominating political thinking before and after 1947. The paper then examines the role played by the Indian government's industrial policy in protecting domestic employment and demand along with promoting export led growth. The paper then turns to the problem the British government faced in managing Indian imports into the British market. Using original archival sources from the Indian and British governments' archives the paper demonstrates how the regulation of Anglo-Indian international trade in textiles was used to manage industrial development in both economies. The paper concludes that whilst international regulation restricted Indian exports of low value textiles into British markets rather than protecting British producers it promoted trade diversion, with Indian manufacturers of low cost production moving to countries exempt from British import restrictions and simultaneously encouraged the development to higher value adding production of textile exports amongst the Indian producers.

Independence and the industrialisation of the Indian Economy

Indian development during the colonial period before independence in 1947 was characterised by an economy with world leading sectors yet set within a wider economy with limited indigenous development of modern industries. Already by the mid-twentieth century India had become the world's largest tea producer and the centre for global production of other commodities including jute, cardamonn and ginger. In a yet wider area of agricultural exports India also held a dominant world position including coffee, rubber, cashews and pepper (Agarwala, 2002, p.535). Beyond agricultural exports and the textile-based industries of the first industrial revolution Indian industrialisation until 1947 was however much more limited (Bacghi, 1982). In so far as industries of the second and third industrial revolutions were concerned Indian business was highly dependent upon the foreign direct investment (FDI) of British, European and American multinationals. It was not until the interwar period before 1940 that investment by Indian firms in capital intensive processing industries began to emerge.

Originating from the reinvestment of profits made by the managing agencies during the First World War firms such as the Tata Iron and Steel Company developed prior to 1940. (Ramnath, 2012, pp.62-6). Nevertheless, in more technically advanced sectors such as chemicals and dyestuffs, while its history could be dated back to the 1880s, the industry remained dominated by the European multinational companies of Bayer, BASF, and Hoechst, the British company ICI and the US firms Du Pont, Monsanto and Carbide until the 1970s. The same role for FDI can also be seen in the oil and car industries (Agarwala, 2002, pp.531-551). Thus colonial rule was understood to be restricting indigenous development to primarily agricultural goods production for export with the Indian domestic economy restricted to becoming a market for advanced manufacturing of European multinationals rather than a centre of global production in its own right.

Once independence was won the state therefore took a much greater interventionist and developmental approach to industrialisation. State monopolies in key industrial sectors, including in iron and steel, the manufacture of telephone and telegraph networks and mineral oils were formed along with regulation and control over 18 further private industries following the 1948 Industrial Policy Statement. The Industrial Policy Statement was then reinforced with three further measures, Industrial licensing from 1951, government protection for infant industries and finally Import substitution in what Tripathi has described as the 'four pillars' of post-independence industrial policy. (2007, pp.282-325)

In so far as indigenous industrial enterprises had developed in areas of textile production including cotton and jute the large firms that had emerged were dominated by diversified firms in which a management structure encouraged the separation of ownership and control. The managing agency structure ensured private finance from individual shareholders was centralised in a managing agency while third party firms were contracted to own and manage production units and so a divorce of ownership from control was an essential element of these large organisations. Agency organisations derived a fee from the principal investors for their operation of the agency relationship. As Wearmouth (2014) describes, the 'managing agent was a firm delegated by another firm's principals [shareholders] with responsibility for the day-to-day operational management in return for a fee, often a commission on the managed firm's sales or profits. (2014, p.42). In doing so the agency's management held significant sway in both the creation and distribution of profits and returns to the principal investors. But as a consequence the managing agency firm did not then have access to capital markets independently of the principal investors.

One consequence of this structure was Misra (1999) maintains that while indigenous Indian capital rapidly flowed into managing agencies in sectors where export markets had emerged, especially in cotton, jute, tea and other agricultural goods, this led to a highly racially segregated form of industrial capitalism in India itself and limited diversification opportunities into more technically advanced and capital intensive sectors (1999, pp.210-14). Marcovits (1985) shows the inter-connectedness of the managing agencies through a system of

interlocking directorships and whilst Chandavarkar (1985) challenges the normative assumption of a defined path of industrialisation it is difficult to resist Misra's conclusion that the managing agency structure while highly effective at developing specific export focused sectors simultaneously hindering wider Indian industrialisation.

As Indian independence arrived indigenous Indian business was identified as 'behave[ing] more like speculators and traders than industrialists' (Federation of Indian Chambers of Commerce, 1999, p.159) requiring an interventionist and developmental state to foster domestic industrialisation. This was compounded by the economic dislocation of the catastrophic events involving the partition between India and Pakistan (Khan, 2007). Partition disproportionately impacted on the agency firms operating in the textile sectors of cotton and jute separating the areas of raw material production from the areas of manufacturing across the newly formed states' boundaries. In cotton of 394 cotton mills only 14 were in Pakistan after 1947 but almost all the raw cotton originated in Sind and west Punjab provinces of Pakistan (Federation of Indian Chambers of Commerce, 1999, p.154). The significance of this impact can be understood from the fact that in the case of cotton domestic demand in 1947 after partition was twice that of domestic production (Singh, 1999, p.139). Similarly for jute 81 % of raw jute production took place in East Pakistan (subsequently Bangladesh) yet 100% of jute processing mills were in the newly formed state of India.

Regulating the domestic textiles industry: 1947 to the Textile Plan

The textile industry has remained throughout the twentieth century of crucial importance to the Indian economy. Fifty years after independence it still accounted for one fifth of total industrial output of the economy yet only contributing some four per cent to GDP and only 2.3 per cent of world trade in textiles (Nageswara Rao, 1999, p.117). The textile industry was deemed to be one of the 18 industries identified in the 1948 Industrial Policy Statement to be important for the national interest and in 1951 also came under the Industries (Development and Regulation) Act for allocating import and raw material licenses. Controls introduced over the industry during the Second World War were retained in the Cotton Textiles (Control) Order in 1948 and remained in operation for the next four decades. Misra (1993) suggests that the Indian textile industry was probably one of the most tightly regulated industries in the world (1993, p.24). He charts the post-independence evolution of India's domestic textile policy through the development of 5 related policy goals; the regulation of intersectoral competition, the provision of cheap cloth, the Fibre policy, modernisation and lastly the rehabilitation of 'sick mills'.

Economic dislocation after 1947 and the low levels of industrial development saw government undertake a systematic attempt to direct investment into industrial production. In the case of cotton the areas under cultivation increased 55 per cent from 58.8 to 90.06 lakh¹ hectares with a corresponding increase in output of 422 per cent from 1951-1997 (Singh, 1999, p.140). By the 1990s India was the third largest producer of raw cotton behind China and the United States (Karunakaran Pillai, 1999, p.160).

The low value adding of the manufacturing elements within the sector acted as an impediment to the industry's potential to act as a key sector in the development of higher technology industries such that little development took place associated with related and supporting industries. Profits from the sector were instead used to diversify into other extractive and agricultural industries, such as coal and tea production, by the managing agents dominating the larger firms and thus provided evidence for the criticism of weak Indian entrepreneurship both pre- and post-independence. Raw material costs thus continued to constitute the overwhelmingly largest component to total costs in these low capital intensive production technologies. Across all textile sectors from cotton to silk, jute to woollen products raw material expenditure constitutes a minimum of fifty per cent of total sales and in some areas such as textile processing as much as 80 per cent (Nageswara Rao, 1999, table 10).

The diversity of production technologies included modern mill production encompassing 'composite' mills engaged in both weaving and spinning sitting alongside traditional handloom production at home or in small scale factory settings, powerloom production in specialised weaving factories and fine hosiery production in knitting factory production settings. Domestic industrial policy therefore identified two specific areas for intervention, employment and productivity enhancing investment.

Protection of the continued employment of handloom weaving and their evolutionary transition from handloom to powerloom weaving was one of the government's policy goals with limitations placed on the growth of the higher productivity industrial production methods embodied in composite mill operations. Thus, while composite mill expansion was blocked powerloom take up was such that from 1951-64 a six fold increase took place according to official estimates (Misra, 1993, pp.24-45). As a result while the larger composite mills were responsible for the production of 80 per cent of cloth in the 1950s this had fallen to just 20 per cent by 1989 (Misra, 1993, p.120). However the production from the composite mills was still of major importance to the industry's export development as almost all exports derived from just 10-12 of the private composite mills (Karunakaran Pillai, 1999, p.161).

Price controls operated in the industry to ensure cheap cloth was available within the domestic market. Limiting prices first through voluntary means and then through statutory measures after 1964 impacted on the profitability of mills leading to the creation of loss making 'sick' mills. The impact of a lack of rationalisation and capital investment in new large-scale productive technologies led to an environment whereby relatively low cost entry could take place. Over supply of output and falling prices in periods of growth led to mill closures and mothballing of plant in what was described as 'sick mills'.

Protection of agricultural employment also impacted on innovation within the industry. Not only did the composite mills not invest in new technology but the Fibre Policy preventing the use of non-cotton fibres had the additional impact of limiting the development of a domestic market for the synthetic fibre industry in the 1960s within the composite mills sector.

Growing industry concerns over profitability by the 1970s saw greater government regulation on the industry with the development of the Cotton Corporation of India in 1970 as a state trading body aimed at seeking to boost marketing and sales in order to alleviate the sick mill phenomena. The creation of the National Textile Corporation also saw direct government ownership emerge in the sector with the taking over of 103 sick mills by 1973. Further intervention followed in 1985 with the introduction of the Textile Policy. This development sought to address failings in the private sector through investment and modernisation. The Textile Policy provided further financial support for rationalisation and modernisation conditional upon enforcement of managerial and labour changes to alter work practices (Misra, 1993, 130; Bagchi and Das, 2014).

Overall Indian government policy towards the textile industry while aiming to encourage production of raw materials and also that of modern small-scale production technologies as a means to manage employment levels also deterred development of large-scale integrated technologies. The industry was one in which state control and latterly ownership under the National Textile Corporation played an increasingly dominant role in the industry from the 1950s onwards. Attempts at industry level co-ordination were facilitated by government but increasingly failed to resolve the problems of the industry and more direct intervention incrementally emerged as a policy response in different economies (Ditt and Pollard, 1992; Tomlinson, Morelli and Wright, 2011; Bagchi and Das, 2014).

The experience of the domestic Indian textile industry from the 1950s through to the 1990s was in many ways therefore similar to that of many other established textile industries in the developed world. Singleton's work (1990: 1991) on the Lancashire cotton industry identifies similar problems of adjustment while Tomlinson, Morelli and Wright (2011) chart the management of this decline in the case of the Scottish jute industry. Problems of maintaining employment while promoting modernisation and rationalisation were difficult to solve within diverse and highly fragmented sectors. What is identified as entrepreneurial failure in the Indian experience can be readily identified as operating in other mature textile industries, such as in the UK and Europe more widely, and may reflect more accurately the industry's entrepreneur's recognition of the lack of opportunity for profit in the industry. Where new opportunities emerged, particularly in the development of artificial fibres investment was not slow in emerging. Indian producers were gaining government licences for the production of polypropylene, rayon, polyester and other synthetic yarns and fibres from the early 1970s onwards (Indian Government Department of Commerce and Industry, Industrial Policy and Promotion 276, 1973-5). Thus, if there was an entrepreneurial failure in textiles manufacturing it must be identified as an international phenomena (Morelli, 2014).

Not all agree with this analysis. Wolf (1982, p.50) for instance concludes that exports of textile manufacturers in general and cotton goods in particular were a lost opportunity for the Indian economy before the 1970s. This is predicated on the view that Indian modernisation and industrialisation in its production technologies would not have impacted on domestic

employment levels due to their sole focus upon export markets and, in addition, that increased export potential would have found access to the growing markets of the developed economies, particularly those of Britain, Western Europe and the United States. Yet a central part of the explanation of the limited success of Indian government's domestic policy towards the textile industry lies with the fact that the domestic Indian textile industry was itself linked to and an integrated part of a wider global trade in raw material production, unfinished cloth and finished garments (Vanathi and Swamynathan, 2014). As such international regulation of the trade played a large part in determining the ability of firms (and the Indian government) to influence the development of the domestic industry.

Within the international regulatory environment Indian interests were also much less powerful than those of first world governments and firms. Whilst new international production centres, such as Hong Kong in the 1950s, Bangladesh in the 1970s and still more recently China, could emerge it was at the expense of existing centres of production that these developments took place due to the fact that the international regulation limited potential growth opportunities of existing centres. As a result increasing output of low cost raw materials, yarns and unfinished cloth acted to encourage the development of producers in newly industrialising economies rather than within India itself. It is to the regulation of the international trade and in particular linkages between the British and Indian industries that we therefore now turn.

Market regulation after 1945: Negotiating Anglo-Indian Textile Trade

The post Second World War settlement in Europe was ideologically predicated on the development of deeper trading relationships between the conflicting powers under the premise that trading nations were less likely to resolve conflict militarily. Thus, Milward identifies the development of the Marshall Aid programme, the European Iron and Steel Agreement and the European Payments Union in 1950 leading to the Treaty of Rome in 1957 as central to our understanding of the European rescue of the nation state (Milward, 1992: Aldcroft, 1993). This regulatory framework extended into a wider range of other industries including agriculture with the Common Agricultural Policy and also that of the textile industries with common tariffs on imports of raw materials and finished goods (Aldcroft, 1993, p.150). In the British case despite its refusal to participate in the developing Common Market similar regulatory frameworks emerged. Again the emphasis of regulation on the British textile industry can be broadly understood in terms of the promoting domestic investment leading to rationalisation and the boosting of productivity, the encouragement of export capabilities and consequentially the maintenance and management of full-employment (Grove, 1962: Cairncross and Watts, 1989: Singleton, 1991).

In the case of the British textile industries Rose (1997) and Dupree (1992) show, particularly for the cotton industry, that the development of any new regulatory framework after 1945 was impeded by the continuation of pre-existing colonial economic relationships and in particular imperial preference. Imperial preference ensured a free trade area existed within the British Empire, and later the Commonwealth countries, but in the post-war era acted to impede the

development of trade relationships outside the Commonwealth economies for both British and Indian firms. In the context of textiles this relationship meant that the British government acted to seek protection for domestic producers who inevitably faced a cost disadvantage relative to Indian imports.

The British Government's Board of Trade (BoT) and Foreign and Commonwealth Office (FCO) together played a major role in the Anglo-Indian textile trade negotiations. Immediately after British government controls were relaxed in 1954 the cotton industry began to demand further protection from the threat of rising Indian imports of 'grey cotton'. Unbleached or dyed and unprinted cloth imports, referred to as 'grey cotton', imports were encouraged by those parts of the textile trade linked to processing rather than the manufacture of grey cloth whereas those parts of the trade producing cloth from raw cotton or cotton yarn were facing cost disadvantages in this environment. In the case of both the British cotton and jute industries the dominant voice of these trades originated from those firms who were spinners and weavers of raw materials with firms whose only role was garment production from finished cloth having less of an influence. With Indian imports accounting for half of all UK imports of grey cotton cloth any change in import regulations, duty or quota restrictions would inevitably place a heavy strain on the development of Anglo-Indian trading relationships (PRO BT 11/ 5606, 1st March 1955).

Immediately upon the withdrawal of wartime restrictions on the economy in 1954 concerns over the impact of low cost textile imports became a focus for government thinking. Potential retaliation involving 'the whole shooting match' could develop from the Indian Congress if the British government raised restrictions warned Jha, the Indian Joint Secretary for Commerce and Industries, in discussions with Board of Trade officials in 1954 (PRO BT 11/ 5606, 13th October 1954). Whilst initially resistant to renewed intervention within three years the Board of Trade had accepted that avoiding action was no longer a viable strategy. As Board officials recognised '... after years of skilful fencing, [we] have reached a point where we have to decide whether or not the Lancashire cotton industry is to be protected.' (BT205/234, 24th June 1957). Initial attempts to develop industry level co-ordination referred to as the 'Crossley Plan' faced difficulty from the fact that Crown Immunity would be required for a new collusive agreement following the passing of the 1956 Restrictive Trade Practices Act (BT 258/742, 3rd June 1958).

The textile industry posed a significant dilemma for the British government's approach to industrial policy in the late 1950s. While government was moving towards increasing competition policy and the abandonment of industry level collusive agreements, as a means to force private industry to act more competitively, it was increasingly identifying the need to sanction the development of more restrictive collusive agreements in order to address the lack of competitiveness within the differing sectors of the textile industry. In the case of the British jute sector of the industry whilst the introduction of competition policy in 1956 was the catalyst for internal transformation such transitions were complex and took place over extensive time periods. Direct government import controls had been regulated through the continuation of

wartime body Jute Control beginning in 1941 and not ending until 1969 (Morelli, 2014). In the case of the alteration of international relationships such transitions took place over a much longer timeframe. In cotton, wartime controls introduced in 1941 with the formation of the Cotton Board evolved into the 1962 quota agreements which itself evolved into duty tariffs in 1972 and ultimately the Multi-Fibre Arrangement (MFA) after 1974 (Singleton 1991; Rose, 1997; Morelli, 2013). As Beckerman argues this approach was however dictated by domestic rather than international concerns (1972, p.148).

The Board of Trade's attitude to the differing textile sectors was not however uniform. Recognising the political importance of the wider and larger Lancashire cotton industry ensured cotton had greater political weight than was the case in other sectors. As Board of Trade officials recognised political campaigning by the Labour Party in Lancashire meant government had to behave more sympathetically. In addition their less sympathetic approach to the decline of the jute production, concentrated just in the Scottish city of Dundee, might then also be used as a bargaining offer with Indian officials. As the President of the Board of Trade recognised '*We are about to help India over jute and it might be that the Indian Government, whom we are bound to consult, would agree to a reasonable cotton quota.*' (PRO BT205/234, 25th June 1957).

As described above in the Indian textile industry the British industry also saw similar attempts at controlling imports. However, while the British government could unilaterally impose tariff protection on textile imports from non-Commonwealth countries it had to seek agreement on bi-lateral voluntary quota restrictions on finished imports from Commonwealth economies.

Quota controls were agreed by 1962 limiting Indian imports of cotton cloth and continued until 1972 when regulation moved to financial duties on imports rather than quantity-based controls from Commonwealth countries. As the British textile industry became more integrated and larger firms dominated both production of untreated grey cloth and that of finished garments this shift was a reflection of the changing requirements of protectionist policies. Tariff protection now took the form of restricting finished products rather than raw materials with tariff ramping identifying the extent of processing by the exporting economy for the level of duty. Anthony Crosland MP, as President of the Board of Trade, had signalled the move away from quotas to tariffs in a speech to the House of Commons in July 1969. From 1972 a tariff was to be imposed on imported cotton, which was to fall heavily on Indian producers amounting to a 7.5% tariff on cotton yarn, 15% on cloth and 17% on most garments (PRO FCO67/537, 1972).

The British government's move towards application and entry into the European Common Market also provided a further rationale for the shift in tariff policy. Common Market entry required a common external duty-based tariff barrier by all member states. As a result the need to 'modify' and abandon the quota agreements became a policy goal particularly of the British government but also accepted by other Commonwealth economies by the late 1960s (Cairncross and Nita, 1989, p.96-7).

As with the original introduction of quantitative restrictions the dominant position of the British government in the negotiations ensured Indian economic interests were secondary. The FCO calculated that by 1970 India imports totalled £106m, of which £8m were imports of tea duty free, £12m of cotton goods which were regulated via bi-lateral quotas, £26m of other goods incurring tariff duties for the protection of British manufacturers and £30m of other goods with no tariff protection. Indian imports accounted for 53% of total cotton imports under the Commonwealth quota arrangements (PRO FCO67/537, 1971). Again, as with the debates in the 1950s, government concerns over insufficient investment, low productivity growth and continuing high unemployment in the domestic cotton textile area of Lancashire provided the rationale for further government intervention. The publication of the Textile Council's *Report on Cotton and Allied Textiles* in 1969 acted to provide government with the validation required to move away from quota restrictions on cotton imports to duty protection as it sought a means to both address the sector's concerns and in preparation for future entry into the Common Market (PRO FCO67/718, 1972).

Board of Trade and Foreign and Commonwealth Office officials nevertheless recognised that the move to greater restrictions on textile imports would have a significant impact on the Indian cotton producers. Crosland himself recognised the problem and stated that the *'Government will ... when the time comes to determine the level of aid to India after 1972, take into account, against the background of India's general aid requirements at that time, any adverse effects on her exports arising from the tariff'* (Hansard, 1969, p. 1509).

However Crosland's stated intention of providing aid in compensation for the dislocation of trade proved more controversial within government itself. Opposition from within the Foreign and Commonwealth Office (FCO) and the Department for Overseas Development Aid (ODA) developed on the issue of compensation to Indian producers for the loss of markets. The FCO were concerned that any payments might set a precedent for other economies in their negotiations with the British government while the ODA sought to avoid explicitly linking aid to compensation for changes in trade relations and trade negotiations. Thus, in a letter from officials at the ODA to the FCO setting out the principals for negotiations FCO officials included the hand written instruction that *'None of the above should of course be passed to the Indians'* (PRO FCO67/373, 1970).

A further element in the negotiations between the British and Indian governments lay in the potential diversion of production from tariff to non-tariff produced goods. The FCO were keen to ensure that *'We should not say anything which they [the Indian government - author's addition] could interpret as encouragement to invest in man-made fibre capacity ... in the belief that they would find a ready market in the UK'* (PRO FCO 67/141, 1969). This was especially the case as the FCO were further concerned that the offer of £10m additional aid for the changes might provide producers with the investment required for such diversification (PRO CO67/718, 1972, p.4). Yet despite British government concerns Indian producers were already making these decisions independently and grasping the new opportunities in artificial fibres. Garwara

Nylons Ltd of Bombay gained government licences for the production of polyester in December 1973, Rajasthan State Industries Mineral Development Corporation Ltd. of Jaipur and Sri Sakthi Textiles Ltd in Pollachi were similarly was licenced to produce synthetic yarns and fabrics respectively in 1975 while the manufacture of polypropylene was being pursued from 1973 (NIA, Department of Commerce and Industry, Industrial Policy and Promotion 276, 1973-5).

Anglo-Indian negotiations over the regulation of bi-lateral trade was mirrored by and eventually superseded by multi-lateral regulation. The 1974 Multi-Fibre Arrangement (MFA) can be understood as a culmination of these processes towards multi-lateral regulation of trading arrangements. The MFA itself was a multi-lateral arrangement to limit imports from the developing economies into the developed economies of the United States, Britain and the European Union. The MFA was also the outcome of a process preceded by the Short Term Arrangement in 1961 and the Long Term Arrangements in 1962 both of which were organised with the United States (Bagchi, 2004, p.25). The MFA subsequently then went through a series of changes with new arrangements being negotiated every three years (Majmudar, 1989). These changes were generally to tighten the voluntary export restrictions placed on exporting countries and to extend the restrictions across an increasingly specific and targeted range of textile products. The British government's response to these agreements, while in general favourable, was that they failed to offer sufficient protection for its textile industries, particularly that of cotton. However Prime Minister Jim Callaghan accepted the view that the renewal of the MFA arrangement and the additional continuation of Common Market restrictions on imports provided the greatest protectionism available (PRO PREM 16 1470, 1977). The alternative was further isolation of the United Kingdom's interests in the Common Market and fears of a rapid increase of imports without restriction if no agreement was reached. As David Owen, Foreign Secretary wrote to Prime Minister Jim Callaghan in December 1977 *'There would be bitterness if another blow were struck at the community's credibility. The United Kingdom would ... be entirely isolated and should not expect autonomous measures to look after the United Kingdom's interests.* (PRO PREM 16 1470, David Owens MP to Prime Minister Jim Callaghan, 16th December 1977).

Majmudar's (1989) study of Indian textile exports following the introduction of the MFA suggests that the impact of tightening quota restrictions and rising duty tariffs failed to limit imports. Indeed evidence suggests Indian imports increased and the Indian textile industry responded by increasing value added production into garment production and away from raw material and unfinished cloth production (Karunakaran Pillai, 1999, p.167). Between 1976 and 1985 the number of firms exporting grew from 3,929 to 8,260 (Majmudar, 1989, table 4). In each of the three periods the MFA was re-negotiated from 1976 to 1987 the value of exports also grew more rapidly than the volume of exports (Majmudar, 1989, p.5) while the concentration of Indian exports into restrained countries grew from 68.9% by value to 80.5% from 1985-1987 (Majmudar, 1989, table 5).

Similarly in the area of artificial fibres Indian capabilities increased during this era. As with British producers Indian firms with weaving and textile knowledge readily diversified into artificial fibres once the market for these products emerged and the technological impediments to mass production were resolved. This again provided existing textile producers with opportunities to avoid areas of production where low value adding and low cost competition was developing. This process of diversification into higher capital intensity production methods also developed with the move away from the agency structure of ownership and management. Large Indian firms now began to develop more recognisable financial and managerial structures, whilst often retaining a high degree of family control (Tomlinson, 2003; Roy, 2017).

Conclusions

This paper suggests that the post-independence Indian textile industry's evolution was a function of a number of domestic governmental political influences. Government action to protect domestic employment whilst promoting the development of more efficient production technologies was linked to the desire to encourage larger firms to focus upon export markets with more capital intensive technological production technologies. However the potential for larger Indian firms to gain access to international markets, primarily those in the United Kingdom, the United States and Europe was itself highly constrained by the rapid re-emergence of the regulation of trade at the bi-lateral and latterly multi-lateral levels. Quotas and duties were means by which the importing governments in the developed economies provided protection for their own indigenous, but declining, textile industries. As such this regulation acted as a means to slow and manage the decline of traditional textile industries in advanced economies in response to the cost advantages available to newly industrialising economies. Yet at the same time this limited the degree to which Indian producers could find profitable outlets for increased investment in larger mills.

This highly constrained environment for established textile industries, such as those in India, led to the emergence of new centres of production facilitated by accessing the expansion of supply of low cost raw materials. These new centres initially also had the advantage of unconstrained access to developed markets outside of the quota agreements until they too were brought into the agreements framework via the Multi-Fibre Arrangement. Once new low cost producers emerged the established Indian producers themselves moved towards higher value added garment manufacture and away from lower value unfinished cloth production. This was combined with the process of diversification into artificial textiles as larger firms took advantage of new opportunities combining their existing production capabilities with innovation in yarn production. Export led diversification was supported and promoted as part of the Indian government's trade and commercial policies whilst protection of small scale domestic producers of traditional textiles continued. This developmental path of the Indian textile industry had previously been followed by textile industries in developed economies once low cost producers, India being a key example, emerged at the end of the nineteenth century.

Thus, the Indian textile industry's development echoed many of the features of the textile industries developments in the advanced economies. However, viewing the demise of low value added textiles as economic failure within the domestic setting misses the wider global framework within which the industry was developing. Low value adding was giving way to higher value adding, domestic-focused production was giving way to internationally focused production technologies. Governments themselves in the developing world, as had been the case in the developed world, increasingly actively undertook the management of these transitions in order to maintain employment and promote technological development.

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¹ A lakh in the Indian numbering system refers to 100,000.